



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 9/18/2007

GAIN Report Number: RS7063

Russian Federation

Agricultural Situation

Penza Oblast Ag Investment Climate

2007

Approved by:

Kimberly Svec
U.S. Embassy

Prepared by:

Erik Hansen, Mikhail Maksimenko

Report Highlights:

Penza oblast is attracting foreign investment in agriculture by creating favorable conditions for entrepreneurs including offers of tax breaks, financial assistance from the local government and easy-term contracts for leasing from state or privately-owned land. The Governor of Penza oblast is personally spearheading efforts to attract direct foreign investment in agriculture. Penza oblast officials are encouraging construction of new meat and poultry processing facilities and would like to see further development in the logging and timber processing industries.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
[RS]

Table of Contents

Executive Summary	3
Penza Agricultural Production	3
Agricultural Investment in Penza Oblast	3
Climate	4
Greenhouse Complex	4
OOO Heartland Farms Penza	4
OA0 Atmis-Sakhar Sugar Refinery	4
Evroservice Group	5
Poultry Facility Vassil'evskay	5

Executive Summary

Penza oblast is attracting foreign investment in agriculture by creating favorable conditions for entrepreneurs including offers of tax breaks and easy-term contracts for leasing from the state or privately-owned land. Governor of Penza oblast Vasiliy Bochkarev stated that Penza is very interested in attracting direct foreign investment in agriculture from abroad, particularly from the United States. The governor promised to support businesses that are ready to invest in agricultural production in Penza and emphasized that there is plenty of rich untilled agricultural land available for the taking. Penza oblast officials are encouraging construction of new processing facilities for both plant and animal-origin products. Governor Bochkarev would like to see further development in the logging and timber processing industries as well to help alleviate a shortage in affordable housing in the rural areas.

Penza Agricultural Production

Penza oblast is building new poultry, pork, and dairy farms to increase production as part of the National Priority Projects in Agriculture (NPPA). In the first quarter of 2007, Penza oblast increased agricultural production by 10 percent. First quarter growth in 2007 was distributed among meat, poultry and dairy production. Meat and poultry production increased 15 percent, with some larger farms reporting 47 percent growth. Penza's success increased Russia's total production of meat and poultry by 4.8 percent. Dairy production in Penza, measured in fluid milk equivalent, increased 2 percent.

Penza oblast is developing its infrastructure and livestock operations in support of Russia's NPPA. The first shipment of cows arrived from Canada valued at \$1.5 million in August 2007. This initial livestock shipment is part of a larger agreement with Canada to purchase a total of 600 cows. Local agriculture officials forecast an increase in meat and dairy production of 40 percent and 3.2 percent, respectfully, in the coming year. They also plan to have 18 new or renovated livestock farms operational by the end of 2007.

Penza continues to make improvements, but requires additional investment spending to reach its full potential, and the local government is making an effort to attract more local and foreign investors.

Agricultural Investment in Penza Oblast

Penza officials developed an investment strategy, with the help of consultants and experts from the National Direct Investments Agency, to ensure investors get preferential treatment from the region's government. For example, revisions to the local bill "On Investments in the Penza Region" are designed to increase the incentives for foreign investors. The new version of the bill outlines tax breaks, subsidies, bank-loan interest rates, easy-term contracts for leasing from the state or privately-owned land, in addition to financial assistance from the local government to develop infrastructure. Foreign investors from Great Britain, Italy and France have already invested millions of dollars in agriculture and all have expressed intentions to earmark millions more into their operations by 2010.

Tax and Financial Incentives

Penza oblast offers a favorable tax regime for fixed capital investment in agriculture. The current tax level is set at zero but will gradually increase to 18 percent by 2014. The structure of the tax incentive favors early investment in Penza oblast.

Under revised legislation, foreign investors receive equal access to state subsidies and financing programs traditionally reserved only for domestic investors. Such benefits include

subsidies on fuel and oil, winter crops re-sowing, and subsidies on credit interest rates for purchases of agricultural materials and inputs. In the past, Russian law forbade foreigners from owning farmland. In June 2003, Russia revised the law granting foreigners the right to acquire 49-year leases of agricultural land. In addition, the local government simplified the land lease process.

Climate

Penza oblast is located in a variable climatic belt. The climate is temperate-continental, and 68% of the land is black soil. Average annual precipitation is 450-500 mm, varying from 350 mm in dry years to 750 mm during higher levels of precipitation. Agriculture occupies 3 million hectares (approximately 7.4 million acres), which constitutes 1.4% of total Russian land dedicated to agriculture. Penza's Agro-Industrial Complex (AIC) produces one-fifth of the oblast's gross product. Its climatic conditions enable crop and livestock operations to flourish including grains, sunflower seeds, sugar beets, beef, pork, poultry, milk, and eggs.

Greenhouse Complex

Several years ago, a Dutch company built three hectares of modern greenhouses for rose cultivation in the Mokshansk sub-region of Penza oblast. The owners plan to increase their operation to 180 hectares in the near future as profits are high (as is the support they are receiving from local government officials). Roses from this operation can be found in Moscow, St. Petersburg, Ekaterinburg, and Samara. Penza oblast officials consider the Mokshansk greenhouses to be a unique investment project and one that can be copied in other areas.

OOO Heartland Farms Penza

OOO Heartland Farms Penza, a Russian branch of Heartland Farms UK Ltd., currently work 12,000 hectares of land in the Belinsky sub-region of Penza oblast located approximately 650 kilometers southeast of Moscow in the Volga region. Plans are underway to acquire an additional 18,000 hectares by the end of 2008 making this one of the largest operations in the region. Heartland currently grows wheat, malting barley, rye, protein crops, sunflower seeds and sugar beets. Wheat grain harvest is averaging approximately 6.5 MT/ha at a cost of \$400/ha. Malting barley expenses were lower, at approximately \$335/ha. Sugar beet production in Russia is currently profitable and is expected to become even more profitable as Russia moves towards increasing import duties and placing limits on raw sugar imports.

Heartland Farms spent several years researching the Russian agricultural sector before choosing Penza oblast as the site of their Russian operation. Before this, Heartland Farms was already involved in trading and logistics, contract harvesting, input and buy-back agreements, and running demonstration farms for major international producers of seeds, agricultural inputs, and machinery in Russia. To date, Heartland Farms Penza has invested \$8 million dollars in their operation and plan to invest millions more in the next year or two. The average monthly salary at Heartland is between \$250 and \$350 per month; substantially higher than the average salary for farm workers in nearby farms.

OAo Atmis-Sakhar Sugar Refinery

Atmis-Sakhar is a French-owned sugar refinery capable of processing 750 MT of raw sugar per day and is one of the biggest sugar refineries in Penza oblast. This operation processes sugar beets grown on its land and also buys beets from surrounding farms. This refinery is equipped to pack sugar into 50 kg bags with plans to scale up to 500 kg bags. Plans are underway to acquire more land for sugar beet production.

Evroservice Group

Evroservice Group plans to build a sugar refinery in Penza oblast and invest a total of \$110 million in sugar beet production. Penza oblast officials claim that the group also plans to build two feed meals, a pork operation capable of producing 10,000 MT of meat annually and a broiler facility producing 100,000 MT of poultry meat annually.

Poultry Facility Vassil'evskay

Vassil'evskaya poultry factory located in Penza oblast is a branch of Moscow's Cherkizovo meat-processing plant. Vassil'evska is the trademark for frozen poultry products that are sold in Penza and other regions and of Petelinka poultry found in the Moscow market. Cherkizovo is a leader in meat processing and meat production in the Volga region. It manufactures more than 150 types of products specializing in cooked sausages and hams. The total capacity of the plant is 45,000 MT/year much of it supplying McDonald's restaurants located in the regions. Cherkizovo officials have stated that there are plans to expand their operations in Penza oblast in the near future as well.